

VZCZCXR08563

OO RUEHFK RUEHGH RUEHKSO RUEHNAG RUEHNH
DE RUEHOK #0526/01 2680747
ZNR UUUUU ZZH
O 250747Z SEP 06
FM AMCONSUL OSAKA KOBE
TO RUEHC/SECSTATE WASHDC IMMEDIATE 0498
INFO RUEHKO/AMEMBASSY TOKYO IMMEDIATE 7724
RUEHKSO/AMCONSUL SAPPORO IMMEDIATE 0146
RUEHNAG/AMCONSUL NAGOYA IMMEDIATE 2250
RUEHFK/AMCONSUL FUKUOKA IMMEDIATE 0134
RUEHNH/AMCONSUL NAHA IMMEDIATE 0156
RUEHBJ/AMEMBASSY BEIJING IMMEDIATE 0391
RUEHUL/AMEMBASSY SEOUL IMMEDIATE 1081
RUEHSH/AMCONSUL SHENYANG IMMEDIATE 0042
RUEHGH/AMCONSUL SHANGHAI IMMEDIATE 0008
RUEHGZ/AMCONSUL GUANGZHOU IMMEDIATE 0100
RUEHHK/AMCONSUL HONG KONG IMMEDIATE 0193
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RUYNJDK/COMNAVFORJAPAN YOKOSUKA JA PRIORITY
RHHMUNA/HQ USPACOM HONOLULU HI PRIORITY
RUEKJCS/SECDEF WASHDC PRIORITY

UNCLAS SECTION 01 OF 02 OSAKA KOBE 000526

SIPDIS

DEPT OF TREASURY FOR AMIT SHARMA
DEPT OF TREASURY FOR BILL MURDEN
DEPT OF TREASURY FOR IVY KOSIMIDES

SENSITIVE

SIPDIS

E.O. 12958: N/A
TAGS: ETRD EFIN EFIS PREL KN JA
SUBJECT: NORTH KOREAN SUPERNOTES SEIZED IN WESTERN
JAPAN

¶1. (SBU) On September 23, Kobe Customs officials and Tottori Prefectural Police raided the DPRK-flagged Kum Gang 1 freighter, which had entered the port of Sakaiminato in Tottori on the Japan Sea coast on September 19. The Japanese authorities took this unusual measure after two counterfeit super-K 100 USD notes were discovered among the cash paid by the Kum Gang 1's captain to a ROK-passport-holding Japanese broker on board the vessel. Since the July 5 DPRK launch of missiles into the Sea of Japan (SOJ), North Korean ship crew have been confined to their ships when making port calls to Japan.

¶2. (SBU) The forged money was found among a total of 300 USD 100 bills used to reportedly pay the broker, either for the cargo of seafood and seasonal delicacy "matsutake" mushrooms or, as the broker claimed, for previously rendered services. The broker had failed to declare the payment after disembarking from the ship, raising the suspicion of the Kobe Customs officials, who have jurisdiction over the port. After discovering that two of the bills in the broker's bag were fakes, the Japanese searched the ship and its hold for an hour, finding no other contraband.

¶3. (SBU) Sakaiminato Port Authority officials told econoff that given the number of the bills, they discounted the possibility that this was a case of deliberate money laundering. In contrast, last year 11 forged USD 100 bills were found in Sakaiminato among 6,500 bills used by a different North Korean freight vessel. Additional information from local Japanese authorities will be reported as it arises.

¶4. (SBU) This seizure draws into sharp focus the peculiarities arising from the current Japan-DPRK ad

hoc trading system, even after the GOJ imposed economic sanctions against the North Korean regime. Through 2005, Sakaiminato's port had the second-largest volume of DPRK ship visits in Japan and a 1.3 billion yen (USD 11.8 million) trade deficit with the North. Nearby Maizuru Port, in northern Kyoto Prefecture, was top in terms of vessels and volume of trade.

15. (SBU) Notwithstanding nominal GOJ control over Japanese ports, in cities like Maizuru and Sakaiminato local port councils and businesses exert more influence over specific port policies than do governmental agencies, even in the current hostile environment across the SOJ. There is anecdotal evidence that local governments do not even have the authority to deny entry to certain ships. The volume of North Korean vessels visiting Maizuru has plummeted since July, not because of official fiat, but because the local loading companies, fearing damage to their reputations, have refused to service the ships. As a result, more North Korean ships are diverting to Sakaiminato, whose economy is more dependent on trade with the North. The city is host to many canning and seafood processing plants, which need the cheap North Korean imports more than Maizuru, whose economy is more robust and diversified.

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